

# The Influence of Customer Engagement Experiences Between Satisfaction and Loyalty Relationships on Freemium Business Model

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## ABSTRACT

The objective of this study is to develop a research framework based on customer's engagement experiences framework including social facilitation, temporal experience, utilitarian value, and intrinsic enjoyment of the freemium business model. In recent years, several software application providers have developed their business models by increasing large users' databases, offering added value for users, and increasing the type of service. This business model is called freemium. Freemium allows its users to access its software applications for free and improve the features whenever they need. Although many users are satisfied, many companies fail to implement this model because many users do not want to pay more. In fact, user's satisfaction does not always influence a user's loyalty under certain circumstances. On the other hand, user's engagement can encourage long-term relationships between companies and users. The originality of this study is the moderating role of customer's engagement experiences in the satisfaction – loyalty relationship of the freemium software application. This research uses a quantitative approach. The questionnaire was successfully distributed to obtain 274 respondents. The data is analysed by SEM. The results of this study indicate that social facilitation is one of the dimensions of customer's engagement experiences, which has the most encouraging factor on users to continue their intention to use and purchase.

**Keywords:** *Freemium, Satisfaction, Loyalty Intention, Customer Engagement Experiences*

## 1. INTRODUCTION

In recent years, software companies have developed a business model by increasing a large users' database, having planned marketing, offering users with added value, and increasing the types of services [1]. According to Nason [2], Freemium, a composite of "free" and "premium", is a revenue model that provides free features and charges additional fees on premium features. According to Fornell [3], satisfaction is defined as the overall evaluation of the products and services that form a user's experiences. Besides user's experiences, user's engagement with the product is also important in the digital world [4]. A previous research conducted by Thakur [5] tried to investigate customer's engagement experiences in strengthening the relationship between user's satisfaction and loyalty of mobile phone users in a shopping application. The purpose of this study is to verify whether customer's engagement experience is one of the factors that

strengthen the relationship between satisfaction-loyalty in the context of freemium.

## 2. LITERATURE REVIEW

### 2.1. Freemium

According to Nason [2], Freemium, a composite of "free" and "premium", is a revenue model that provides free features and charges additional fees on premium features. This business model allows the user to access software applications for free and can improve more services on the software application [6]. Free features of the freemium business model make it easier for software application companies to transfer value to their users [7]. Therefore, freemium is the right strategy in bridging the function of software applications and user experience when trying these software applications [6].

## 2.2. Satisfaction

According to Oliver [8], satisfaction is a response based on the fulfillment of the needs of the user. Users rate features, physical, and their pleasure levels after using the products. In the context of freemium, purchase intention is when users purchase the paid version of a software application [9]. Satisfaction is one of the most important factors for users in the continued use of a product [10]. Satisfaction has been proved several times to be a contributing factor to loyalty [11]. There have been many studies that prove a relationship between satisfaction and loyalty intentions [12]. Continuance intention is to be one of the factors that arise as a result of satisfaction. Moreover, loyalty intentions are not only limited to continuance intention, but also purchase intention [13]. In the context of freemium, purchase intention means that users buy a paid version of a software application [14]. Satisfaction is predicted to make users continue to use freemium apps and even buy additional features if needed.

*H1: Satisfaction has a positive effect on the continuance intention*

*H2: Satisfaction has a positive effect on premium purchase intention*

## 2.3. Loyalty Intention

Loyalty intention is seen as a measure to manage the relationship among users [15]. In the context of freemium, loyalty intention is divided into two dimensions, namely the continuance and purchase intentions [6]. Continuance intention focuses on the behaviour of users who have adopted or used a product and intends to continue its use [16]. According to Yoo et al. [17], purchase intention is the tendency of users to buy a product.

## 2.4. Customer Engagement Experiences

Thakur [5] divides customer's engagement experiences into four dimensions such as intrinsic enjoyment, a utilitarian value, temporal experience, and social facilitation.

## 2.5. Intrinsic Enjoyment

Intrinsic enjoyment is a fun-oriented working on an activity related to self-expression or self-entertainment [18]. In the context of the application, intrinsic enjoyment is an influence for users' decision to reuse the apps and repurchase them [5]. Intrinsic enjoyment is the motivation that leads to happiness when doing an activity related to self-enjoyment [18]. According to Hamilton et al. [19], intrinsic enjoyment traces the behavior of a person who is bound to an activity taken based on the preferences that involve the highest

emotional side. Teo et al. [20] added that a person can be attached to certain behavior if there is joy in it. Intrinsic enjoyment can apply to a variety of activities that require concentration, thinking power, and full participation in them [21]. Intrinsic enjoyment comes from an individual's attachment to an activity that can make him forget for a moment from his daily routine activities [5]. Intrinsic enjoyment can be one of the key motivations for user behavior in the online world and social media [22]. In the context of the application, intrinsic enjoyment influences the user's decision to reuse an application, even to repurchase [5]. Intrinsic enjoyment is predicted to make users stay on freemium apps and even buy more features if needed.

*H3a: Intrinsic enjoyment moderates the relationship between satisfaction and continuance intention*

*H3b: Intrinsic enjoyment moderates the relationship between satisfaction and purchase intention*

## 2.6. Utilitarian Value

According to Choi et al. [13] utilitarian value is defined as the overall level of consumer functional assessment of the advantages and disadvantages of a company's products. In the case of consumer expense behavior towards products, the utilitarian value can be in the form of product functional features as well as information about promotions and prices [5]. Utilitarian value has its role in every activity carried out by online users even up to the purchase level [23]. Utilitarian value is also an important or crucial component in customer engagement which will bring a positive aura to certain objects [22]. Many researchers verify that utilitarian values can create loyalty to the service provider [23].

*H4a: Utilitarian values moderate the relationship between satisfaction and continuance intention*

*H4b: Utilitarian values moderate the relationship between satisfaction and purchase intention*

## 2.7. Temporal Experience

According to Goulding et al. [24], users tend to search for a temporal activity rather than a routine one. Consumers systematically seek out purchasing experiences that they find temporally attractive [25]. The temporal experience includes a constituent of customer engagement on sundry media such as online and digital apps [22]. According to Thakur [5], users typically use software applications to fill their spare time.

*H5a: Temporal Experience moderates the relationship between satisfaction and continuance intention*

*H5b: Temporal Experience moderates the relationship between satisfaction and purchase intention*

## 2.8. Social Facilitation

Social facilitation originally started from the existence of racing factors and competition in an activity [26]. However, developments occurred in the shopping behavior sector, such as coffee shops, attending football shows, and games [27]. According to Zajonc [28], social facilitation triggers someone to do an activity if there is a conspecific (type of species in the same environment). Many researchers have studied social facilitation in digital platforms such as online learning, behaviour, and smartphone use [29]. Consumers usually like to use material or content on various media as a tool in making it easier for them socially to discuss in their community [5]. Thakur [5] adds that the presence of other people (real or imagined) can make things change because an individual gets new thoughts in evaluating something. Guerin [30] concluded that a social facilitation can affect a person's behavior if there is the presence of others. Once users are satisfied with the service of the software applications, they begin to use these services as a bridge to the social community [5].

*H6a: Social facilitation moderates the relationship between satisfaction and continuance intention*

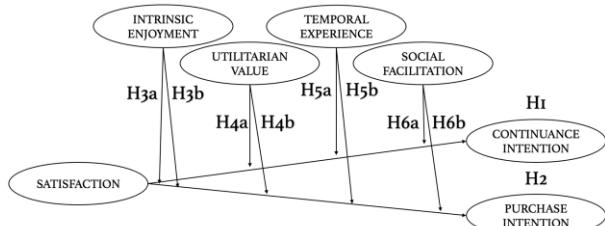
*H6b: Social facilitation moderates the relationship between satisfaction and purchase intention*

## 3. RESEARCH METHODOLOGY

According to Malhotra et al. [31], descriptive research is a way of researching with a model as a reference and making decisions based on the results obtained. In this study, data was taken by a single cross-sectional. Three parts were carried out in this study, namely wording, pre-test, and the main test.

Online questionnaires were distributed through social media owned by the researchers. The bit.ly/tesis-rezky link was shared on Whatsapp groups, the Facebook community, Twitter tweets, LINE groups, and the Instagram homepage. The author also used paid Instagram advertising services to increase the data collected. Physical questionnaires were distributed via intercept in public places, such as public transportation, shopping centers, and places of worship. The population that can be reached from this distribution technique is around 3000 people.

The respondent criteria required are productive age who have used the freemium application at the free stage. Based on these criteria, non-probability sampling techniques were used in this study. This technique is used because there is no list of potential respondents [31].



**Figure 1** Research Model

Purposive sampling is a non-probability sampling technique that is selected as a specific parameter determined by the author [32]. This method can be considered appropriate for this study because of the lack of data on all potential respondents in Indonesia. According to Bentler & Chou [33], the minimum sample required is the number of questions multiplied by ten. Therefore, if the number of questions is 24, then 240 respondents are needed in this study.

The researchers analysed the data using the Structural Equation Modelling (SEM). SEM is divided into two parts, namely measurement and structural model analyses. The measurement model analysis measures how well the questions item represents a construct [34]. The analysis consists of the validity of the measurement model, reliability and compatibility tests. Finally, a structural model analysis was conducted to determine the suitability of data with a measured model [35].

## 4. RESULT

This research model was tested by distributing a survey to freemium app users. The respondents comprised 53% female and 47% male. A total of 46.2% are music and audio app users, 16.7% of users are art, design, and editorial app, game users 7.4%, 6.7% users of social media applications, 6% users of cloud applications, 5% movies streaming apps, and 12 % of other applications such as business, lifestyle, finance). The majority of users are 20 – 29 years old.

From the analysis, it was found that satisfaction has a positive influence ( $t = 3.91$ ). This proves that the H1 is supported (Table 1). Satisfaction has a negative influence on purchase intention ( $t = -2.31$ ). It proves that H2 is not supported. In H4b, utilitarian value has a positive influence on the relationship between satisfaction and purchase intention ( $t = 3.34$ ). In H5B, the temporal experience has a positive effect on the relationship between satisfaction and purchase intention ( $t = 2.70$ ). In H6a, the social facilitation has a positive influence on the relationship between satisfaction and continuance intention ( $t = 2.70$ ). In H6b, the social facilitation has a positive influence on the satisfaction - purchase intention relationship ( $t = 2.14$ ).

**Table 1.** Structural Model Analysis for Research Model

Independent Variables	Continuance Intention		Premium Purchase Intention	
	t-value	Hypothesis	t-value	Hypothesis
Satisfaction (SAT)	3.91	* <b>H1</b>	-2.31	H2
Intrinsic Enjoyment x SAT	0.75	H3a	-0.95	H3b
Utilitarian Value x SAT	1.57	H4a	3.34	* <b>H4b</b>
Temporal Experience x SAT	0.53	H5a	2.70	* <b>H5b</b>
Social Facilitation x SAT	2.70	* <b>H6a</b>	2.14	* <b>H6b</b>

\*Notes: Significant supported hypotheses are in bold for clarity.

## 5. DISCUSSION

### 5.1. Satisfaction – Loyalty Intention

In accordance with prior studies, satisfaction is a strong determinant of continuance intention [36]. However, it is inversely related to purchase intention. This means, the more satisfied the users, the more they have no purchase intention, and vice versa. According to Kim et al. [6], this occurs because the users who are assured with their experience will be motivated to buy an additional feature due to a limited free basic tier.

### 5.2. Customer Engagement Experiences

Customer Engagement Experiences is divided into four constructs as moderator or having indirect influence on the satisfaction - loyalty relationship such as an intrinsic enjoyment, utilitarian value, temporal experience, and social facilitation. In this study, there is no significant effect of intrinsic enjoyment on the relationship between satisfaction and loyalty. However, this is in contrast to the utilitarian value that proved significant on the satisfaction - intention purchase relationship. According to Lynch & Ariely [37], purchase intention can occur if the points in the utilitarian value are met as the product quality information is available. It proves that if users are well-educated with information about the quality of their products, they will have a premium purchase intention. In the context of the temporal experience, time can be an important role in the evaluation and purchasing decisions [38]. This statement confirms that this research has found that temporal experiences strengthen the relationship between satisfaction and purchase intention in the context of freemium. Social facilitation is the only construct that fully strengthens the satisfaction-loyalty relationship. Social facilitation has a positive effect on the relationship within the satisfaction-continuance intention as well as purchase intention in the context of freemium. The presence of another person makes a person able to adapt easily to the environment [5].

## 6. CONCLUSION

The research objective is to determine the role of customer engagement experiences in strengthening the relationship between user satisfaction and loyalty in a freemium software application. The structural model in this study is following the data collected. The result obtained is that satisfaction has been tested as a predictor of continuance intention [12]. However, satisfaction harms purchase intention. This means that the more satisfied users are with the freemium application that is being used, the more there is no intention to make a purchase [6]. Also, utilitarian value is the variable that has the greatest influence in moderating satisfaction with purchase intention of freemium applications. The second biggest influence on purchase intention is temporal experience. Then, the third biggest influence on purchase intention is social facilitation, which is also the only predictor in shaping continuance intention on freemium applications.

Utilitarian value is proven to be the strongest variable in strengthening the relationship between satisfaction and premium purchase intention. However, it does not affect the relationship between satisfaction and continuance intention. This proves that users have a greater chance of being converted into paid consumers if service providers can provide the right utilitarian value of free features as well as paid features. Based on the highest loading factor, the freemium application has fulfilled the user's needs well [39].

Social facilitation is the only dimension of customer engagement experiences that moderates the two dimensions of loyalty intention, namely continuance intention and purchase intention. The difference in results lies in the moderating effect. The moderating effect on continuance intention weakens satisfaction after social facilitation. On the other hand, the moderating effect on premium purchase intention has a significant effect and weakens purchase intentions of premium features if it is influenced by social facilitation. Based on the highest loading factor, the freemium application provides ideas or content so that users can talk about it to the community or their environment [22].

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